

By Senator Deutch

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1                   A bill to be entitled  
2           An act relating to the State Board of Administration;  
3           amending s. 215.44, F.S.; requiring that the board  
4           create an audit committee for specified purposes;  
5           providing for membership of the committee; providing  
6           requirements for members of the committee; prescribing  
7           terms for members; providing that members are state  
8           officers as defined by state law; providing duties and  
9           powers of the committee; requiring that the executive  
10          director of the board respond in writing and indicate  
11          whether action will be taken within a specified period  
12          after receipt of a recommendation from the committee;  
13          requiring that a copy of the executive director's  
14          response be provided to the board and the committee;  
15          requiring that the committee appoint a Chief of  
16          Internal Audit; providing powers and obligations of  
17          the chief; authorizing the board to prescribe  
18          additional powers and duties to the committee;  
19          amending s. 215.441, F.S.; requiring that the board  
20          appoint an executive director; providing requirements  
21          for appointment as executive director; providing  
22          duties of the executive director; authorizing the  
23          board to set additional requirements for appointment;  
24          providing that the executive director is a state  
25          officer for purposes of certain provisions of state  
26          law; amending s. 215.442, F.S.; requiring that the  
27          executive director's quarterly report to the board of  
28          trustees of the State Board of administration and  
29          Investment Advisory Council contain certain

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30 information; amending s. 215.444, F.S.; increasing the  
31 number of members of the Investment Advisory Council;  
32 requiring that the council annually make certain  
33 recommendations; requiring that the council approve  
34 all new products considered for investment by the  
35 board; requiring that a specified number of members of  
36 the council represent specified interests; providing  
37 that members are state officers for purposes of  
38 certain provisions of state law; amending s. 215.47,  
39 F.S.; conforming cross-references; amending s.  
40 215.475, F.S.; requiring that the Investment Advisory  
41 Council assist in the development of the Florida  
42 Retirement System Defined Benefit Plan Investment  
43 Policy Statement; deleting provisions requiring the  
44 review of recommended changes to the statement by the  
45 council; creating s. 215.4754, F.S.; requiring that  
46 the board adopt by rule standards of conduct for  
47 investment advisers and managers; providing  
48 circumstances under which a contract with an  
49 investment adviser or manager is voidable; prohibiting  
50 a public Investment Advisory Council member or such  
51 member's business organization or affiliate from  
52 performing certain actions during the member's service  
53 on the council and for a specified period thereafter;  
54 creating s. 215.4755, F.S.; requiring that an  
55 investment adviser or manager disclose certain  
56 information to the board; requiring that an investment  
57 adviser or manager annually file a statement with the  
58 board; requiring that the statement contain certain

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59 information and be filed on or before a specified  
60 deadline on a form prescribed by the board; requiring  
61 that the statement cover the preceding calendar year;  
62 requiring that an investment adviser or manager file a  
63 new or amended statement under certain circumstances;  
64 amending s. 218.409, F.S.; requiring that the board  
65 create a participating investor council; providing  
66 purposes of the council; providing an effective date.

67  
68 Be It Enacted by the Legislature of the State of Florida:

69  
70 Section 1. Present subsections (3) through (9) of section  
71 215.44, Florida Statutes, are renumbered as subsections (4)  
72 through (10), respectively, and a new subsection (3) is added to  
73 that section, to read:

74 215.44 Board of Administration; powers and duties in  
75 relation to investment of trust funds.—

76 (3) (a) The board shall create an audit committee to assist  
77 the board in fulfilling its oversight responsibilities in the  
78 areas of financial reporting, internal controls and risk  
79 assessment, audit processes, and compliance with laws, rules and  
80 regulations. The audit committee shall be chaired by the Chief  
81 Financial Officer and shall consist of six members. The Governor  
82 and the Attorney General shall appoint two members to the audit  
83 committee, and the Chief Financial Officer shall appoint one  
84 member. Each member must be independent and free from any  
85 relationship that would interfere with the exercise of his or  
86 her independent judgment as a member of the committee. Each  
87 member shall be appointed to a term of 4 years and shall serve

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88 at the pleasure of his or her appointing authority. Persons  
89 appointed to the audit committee must have relevant knowledge  
90 and expertise as determined by the board. Members of the  
91 committee are state officers for purposes of s. 112.3145.

92 (b) The audit committee shall independently and objectively  
93 monitor on an ongoing basis the board's processes for financial  
94 reporting, internal controls and risk assessment, and compliance  
95 with laws, rules, and regulations. The audit committee shall  
96 direct the efforts of the board's independent external auditors  
97 and the board's internal audit staff. The committee shall  
98 report, at least quarterly, all findings and recommendations to  
99 the executive director and the board.

100 (c) The audit committee may:

101 1. Seek any information it requires from employees of the  
102 board, who shall provide such information upon request, and from  
103 third parties;

104 2. Meet, as necessary, with the investment advisory  
105 council, the investor council, board employees, or external  
106 auditors;

107 3. Review the budget for the Office of Internal Audit; and

108 4. Retain outside accountants, consultants, attorneys, or  
109 others approved by the board to assist in conducting an audit,  
110 review, or special investigation as directed by the board.

111 (d) Upon receipt of any recommendation from the committee,  
112 the executive director shall, within 30 days after receipt,  
113 respond in writing and indicate whether action will be taken.  
114 The executive director shall specify the action that will be  
115 taken or the reasons for not taking action. A copy of the  
116 executive director's written response shall be provided to the

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117 committee and the board.

118 (e) The committee shall appoint a Chief of Internal Audit,  
119 who shall have those powers and duties set by the committee and  
120 report to the committee.

121 (f) The committee shall have additional powers and duties  
122 as set by the board.

123 Section 2. Section 215.441, Florida Statutes, is amended to  
124 read:

125 215.441 Board of Administration; appointment of executive  
126 director.—

127 (1) The State Board of Administration shall appoint an  
128 executive director to manage and invest funds as directed by the  
129 board. The executive director must have proven knowledge and  
130 expertise in overseeing institutional investment portfolios, and  
131 must have extensive experience in any two or more of the  
132 following areas: domestic equity or fixed-income securities,  
133 international equity or fixed-income securities, cash  
134 management, alternative investments, managed futures, or real  
135 estate investment trusts. The board may set additional  
136 requirements for appointment.

137 (2) The appointment of the executive director ~~of the State~~  
138 ~~Board of Administration~~ shall be subject to the approval by a  
139 majority vote of the Board of Trustees of the State Board of  
140 Administration, and the Governor must vote on the prevailing  
141 side. Such appointment must be affirmed by the Investment  
142 Advisory Council and reaffirmed in the same manner by the board  
143 of trustees on an annual basis.

144 (3) The executive director is a state officer for purposes  
145 of s. 112.3145.

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146 Section 3. Subsection (1) of section 215.442, Florida  
147 Statutes, is amended to read:

148 215.442 Executive director; reporting requirements; public  
149 meeting.—

150 (1) ~~Beginning October 2007 and quarterly thereafter,~~ The  
151 executive director shall present to the Board of Trustees of the  
152 State Board of Administration and the Investment Advisory  
153 Council a quarterly report to include the following:

154 (a) The name of each equity and alternative investment in  
155 which the State Board of Administration has invested for the  
156 quarter.

157 (b) The industry category of each equity.

158 (c) The type and value of assets that have been downgraded  
159 during the preceding quarter.

160 Section 4. Section 215.444, Florida Statutes, is amended to  
161 read:

162 215.444 Investment Advisory Council.—

163 (1) There is created a nine-member ~~six-member~~ Investment  
164 Advisory Council to review the investments made by the staff of  
165 the Board of Administration and to make recommendations to the  
166 board regarding investment policy, strategy, and procedures. The  
167 council shall recommend asset allocations for funds held by the  
168 board and shall approve all new product types considered for  
169 investment by the board.

170 (2) The members of the council shall be appointed by the  
171 board and shall be subject to confirmation by the Senate. The  
172 members must include one member representing local governments,  
173 one representative of a state employees' union in the Regular  
174 Class, one representative of a teacher's union, one

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175 representative of a police union, one representative of a  
176 firefighter union, and one beneficiary of the Florida Retirement  
177 System. These individuals shall possess special knowledge,  
178 experience, and familiarity with financial investments and  
179 portfolio management. Members shall be appointed for 4-year  
180 terms. A vacancy shall be filled for the remainder of the  
181 unexpired term. The council shall annually elect a chair and a  
182 vice chair from its membership. A member may not be elected to  
183 consecutive terms as chair or vice chair. Members of the council  
184 are state officers for purposes of s. 112.3145.

185 Section 5. Subsection (15) of section 215.47, Florida  
186 Statutes, is amended to read:

187 215.47 Investments; authorized securities; loan of  
188 securities.—Subject to the limitations and conditions of the  
189 State Constitution or of the trust agreement relating to a trust  
190 fund, moneys available for investments under ss. 215.44-215.53  
191 may be invested as follows:

192 (15) With no more, in the aggregate, than 10 percent of any  
193 fund in alternative investments, as defined in s.  
194 215.44(9)(c)1.a. ~~s. 215.44(8)(c)1.a.~~, through participation in  
195 the vehicles defined in s. 215.44(9)(c)1.b. ~~s. 215.44(8)(c)1.b.~~,  
196 or in securities or investments that are not publicly traded and  
197 are not otherwise authorized by this section.

198 Section 6. Section 215.475, Florida Statutes, is amended to  
199 read:

200 215.475 Investment policy statement.—

201 ~~(1)~~ In making investments for the System Trust Fund  
202 pursuant to ss. 215.44-215.53, the board shall make no  
203 investment which is not in conformance with the Florida

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204 Retirement System Defined Benefit Plan Investment Policy  
205 Statement, hereinafter referred to as "the IPS," as developed by  
206 the executive director and the Investment Advisory Council and  
207 approved by the board. The IPS must include, among other items,  
208 the investment objectives of the System Trust Fund; permitted  
209 types of securities in which the board may invest; and  
210 evaluation criteria necessary to measure the investment  
211 performance of the fund. As required from time to time, the  
212 executive director of the board may present recommended changes  
213 in the IPS to the board and Investment Advisory Council for  
214 approval.

215 ~~(2) Prior to any recommended changes in the IPS being~~  
216 ~~presented to the board, the executive director of the board~~  
217 ~~shall present such changes to the Investment Advisory Council~~  
218 ~~for review. The council shall present the results of its review~~  
219 ~~to the board prior to the board's final approval of the IPS or~~  
220 ~~changes in the IPS.~~

221 Section 7. Section 215.4754, Florida Statutes, is created  
222 to read:

223 215.4754 Ethics requirements for investment advisers and  
224 managers.-

225 (1) The board shall adopt by rule standards of conduct  
226 applicable to investment advisers and managers retained pursuant  
227 to s. 215.44(2)(b).

228 (2) A contract under which an investment adviser or manager  
229 renders financial services or advice to the board is voidable by  
230 the board if the investment adviser or manager violates a  
231 standard of conduct adopted under this section.

232 (3) A public Investment Advisory Council member or such

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233 member's business organization or affiliate may not directly or  
234 indirectly contract with or provide any services for the  
235 investment of trust funds of the state during the time of such  
236 member's service on the council or for 1 year thereafter.

237 Section 8. Section 215.4755, Florida Statutes, is created  
238 to read:

239 215.4755 Disclosure requirements for investment advisers  
240 and managers.-

241 (1) An investment adviser or manager retained pursuant to  
242 s. 215.44(2) (b) shall disclose in writing to the board:

243 (a) Any relationship the investment adviser or manager has  
244 with any party to a transaction with the board, other than a  
245 relationship necessary to the investment or funds-management  
246 services that the investment adviser or manager performs for the  
247 board, if a prudent person could expect the relationship to  
248 diminish the investment adviser's or manager's independence of  
249 judgment in the performance of his or her responsibilities to  
250 the board; and

251 (b) All direct or indirect pecuniary interests the  
252 investment adviser or manager has in any party to a transaction  
253 with the board, if the transaction is connected with any  
254 financial advice or service the investment adviser or manager  
255 provides to the board in connection with the management or  
256 investment of funds pursuant to s. 215.44(1).

257 (2) The investment adviser or manager shall disclose a  
258 relationship described in paragraph (1) (a) without regard to  
259 whether the relationship is a direct, indirect, personal,  
260 private, commercial, or business relationship.

261 (d) An investment adviser or manager retained pursuant to

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262 s. 215.44(2)(b) shall annually file a statement with the board  
263 disclosing each relationship or pecuniary interest described by  
264 this section. If no such relationship or pecuniary interest  
265 existed during the disclosure period, the statement must  
266 affirmatively state that fact.

267 (e) The annual statement shall be filed no later than  
268 January 1 on a form prescribed by the board. The statement shall  
269 cover the reporting period of the previous calendar year.

270 (f) The investment adviser or manager shall promptly file a  
271 new or amended statement with the board whenever there is new  
272 information to report under this section.

273 Section 9. Present subsections (9) and (10) of section  
274 218.409, Florida Statutes, are renumbered as subsections (10)  
275 and (11), respectively, and a new subsection (9) is added to  
276 that section, to read:

277 218.409 Administration of the trust fund; creation of  
278 advisory council.—

279 (9) The State Board of Administration shall create a  
280 participating investor council to advise the board regarding the  
281 investment practices, internal controls and risk assessment, and  
282 audit processes for funds invested by the board pursuant to this  
283 part.

284 Section 10. This act shall take effect July 1, 2009.